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18 September 1987

MEMORANDUM FOR THE RECORD

SUBJECT: Policy Review Group Meeting on International Debt (C)

Brazil

David Mulford detailed the pressures the United States is putting on Brazil to come to terms with commercial banks, highlighting the need to adopt a "conventional" debt rescheduling program. Mulford did not indicate concern with the situation at this point, implying that the pressure by Treasury might bring results. Whitehead said he saw a significant danger in allowing Brazil to get away with its debt actions, concerned that others would follow. He said that the political situation in Brazil at present is not good. I agreed with Whitehead's assessment, pointing out that we see no prospect for an improvement in the political climate in the months ahead and, hence, little hope for progress in the debt talks.

Argentina

Treasury is concerned with the juxtaposition of Argentina's problems with those of Brazil. Mulford's main worry is the failure of Commercial banks to wrap up a deal. If the impasse continues, it would raise the potential for unilateral action on debt by Argentina. Whitehead pointed out that Alfonsin was acting responsibly, and that we should try to be helpful. I said that, despite some reports, we still consider Alfonsin a responsible player who is not seriously considering joint action on debt with Brazil at this time.

Philippines

Mulford said he is concerned that poltical problems in Manila are hurting investment. Also, he believes the new finance minister, although appearing as easy to work with as his predecessor, remains an unknown quantity. Both Whitehead and I expressed concern over the situation between Aquino and the military, and the problems this would pose for getting external investment.

Africa:

Treasury outlined the International Development Assistance program and plans for encouraging investment by "surplus" countries into the World Bank for reinvestment in Africa. Whitehead stressed the need for differentiating between African states in order to reward those with positive economic programs.

Attendees

Treasury--Mulford, Conrow; State--Whitehead; DOD--Carl Jackson; AID--Preeg; NSC--Powell, Danzansky, Farrar, Childress, Rosenberg; Office of the President--Stevens; CIA--Helgerson, Hoffmann.

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John L. Helgerson

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